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The Gym Group Private Equity Challenge – Group F
Historic Financials, Valuation, Investment Thesis & Value Creation

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Abstract:
The overall goal of this thesis is the evaluation of The Gym Group's feasibility as a potential leveraged buyout target. In the beginning, the firm was inspected from different angles, the market thoroughly analyzed and the company's position in the market assessed. In the following, a comprehensive appraisal of influencing factors on its financial performance was conducted and growth drivers forecasted to come up with three different cases of how the firm might develop. This knowledge was quantified and the company subsequently valued using a comparable company, a precedent transaction, a DCF valuation method as well as an LBO model. Additionally, an investment thesis and future strategy regarding the operations of the target and the responsibilities of a PE fund, such as sourcing and an exit strategy, were developed. Finally, potential returns were calculated for the different scenarios. The second part comprises the historic financials, valuation, investment thesis & value creation.

Key words: Leveraged Buyout, Private Equity, Low-cost Fitness Market, UK

Disclaimer: I hereby declare that this master thesis is my own and autonomous work. All sources and aids used have been indicated as such. All used information are publicly available and/or information made available directly by the company. This work used infrastructure and resources funded by Fundação para a Ciência e a Tecnologia (UID/ECO/00124/2013, UID/ECO/00124/2019 and Social Sciences DataLab, Project 22209), POR Lisboa (LISBOA-01-0145-FEDER-007722 and Social Sciences DataLab, Project 22209) and POR Norte (Social Sciences DataLab, Project 22209). Full bibliographic details are given in the foot notes which also contain internet sources. This work has not been submitted to any other examination authority.

Munich, 03/01/2020,

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3 I Historic Financials

Top Line Development has led to Continuous Improvements in Profitability

Income Statement Detailed

the gym find your fit

Comments

1. **Mainly call center and payment processing costs**. Those slightly improved over the past years
2. **Employee expenses** include wages, pension, security and incentive costs. Their increase is **in line with the full-time employee growth** over the past 5 years
3. Growth in costs of **operating lease rentals** is **in line with the increasing number of sites** of the company. Yearly lease costs per gym have been approximately £145k per gym
4. In 2017 and 2018, other operating items comprise mainly **acquisition, integration and restructuring costs from the acquisitions of Lifestyle and easyGym sites**, respectively
5. Increase of **depreciation** is **in line with increasing number of sites**. It is based on leasehold improvements and gym equipment
6. **Before IPO capital increased primarily through taking on debt. In 2015 equity raised through IPO** was used **to reimburse** nearly all **outstanding debt**
7. **Tax payments increased with rising exceptional items position since most of them are not tax deductible**
8. The differences in the net income reported by The Gym Group and the figures used for valuation purposes lay in one-time non-recurring expenses (e.g. IPO related), change in reporting standards IFRS to UK GAAP accounting (2014) and the according taxes
9. In **2014** the **aborted merger with Pure gym** increased the cost position of exceptional items
10. Exceptional items increased significantly in **2015 due to costs related to the IPO. This negatively affects EBITDA and goes down to Net Income**

Overview

FYE 31/12 in £k	2014A	2015A	2016A	2017A	2018A	4y-CAGR
# gyms	55	74	89	128	158	
# members (in k)	293	376	448	607	724	
Revenue	**45,064**	**59,979**	**73,539**	**91,377**	**123,884**	*29%*
Revenue growth	*n.m*	*33.1%*	*22.6%*	*24.3%*	35.6%	
Membership Income	44,993	59,400	72,915	90,358	121,515	
Personal Trainer Rental Income	-	-	-	141	875	
Other Income	71	579	624	878	1,494	
Acquired revenue	-	-	-	-	-	
(1) **Cost of Sales**	**(1,040)**	**(1,073)**	**(830)**	**(982)**	**(1,007)**	
Gross Profit	**44,024**	**58,906**	**72,709**	**90,395**	**122,877**	*29%*
SG&A	**(28,171)**	**(39,636)**	**(49,988)**	**(64,053)**	**(88,335)**	
(2) Employee Expenses	(5,480)	(8,419)	(9,944)	(13,153)	(16,784)	
(3) Lease rentals	(7,781)	(11,186)	(13,488)	(17,251)	(22,963)	
Cost of inventory	-	(197)	(68)	(43)	(46)	
Auditors remuneration	-	(93)	(120)	(187)	(224)	
Marketing costs	(2,328)	(3,082)	(4,117)	(4,966)	(7,178)	
other fixed property costs	(4,771)	(6,317)	(8,437)	(10,177)	(14,711)	
Other operating costs	(7,811)	(10,342)	(13,814)	(16,661)	(24,085)	
SG&A of acquisition targets	-	-	-	-	-	
Other operating Items	-	-	-	(4) (1,616)	(2,343)	
Acquisition costs	-	-	-	(548)	(644)	
Integration costs	-	-	-	(525)	(460)	
Restructuring costs	-	-	-	(543)	(1,239)	
EBITDA	**15,853**	**19,270**	**22,721**	**26,342**	**34,542**	*21%*
EBITDA margin	35.2%	32.1%	30.9%	28.8%	27.9%	
(5) Depreciation	(7,600)	(10,907)	(12,693)	(14,408)	(19,710)	
Amortization	(2,100)	(2,308)	(1,442)	(1,175)	(2,051)	
EBIT	**6,153**	**6,055**	**8,586**	**10,759**	**12,781**	
(6) Interest Income	20	265	19	12	22	
Interest Expenses	(10,937)	(9,946)	(795)	(763)	(1,752)	
EBT	**(4,764)**	**(3,626)**	**7,810**	**10,008**	**11,051**	
(7) Tax expenses	953	725	(1,562)	(1,927)	(2,127)	
Tax rate	20.0%	20.0%	20.0%	19.3%	19.3%	
Net Income	**(3,811)**	**(2,901)**	**6,248**	**8,081**	**8,924**	
(8) Other exceptional items	(9) (4,650)	(10) (8,658)	321	48	-	
LT Employee Incentive Costs	-	-	(519)	(774)	(1,012)	
Loss on Disposal of PPE	-	(98)	(30)	5	(72)	
Reported EBITDA	**12,035**	**10,514**	**21,851**	**25,525**	**33,458**	
Reported Net Income	**(7,923)**	**(11,473)**	**5,703**	**7,171**	**7,206**	

Expansion of Sites and Access to Capital Markets Enlarges Balance Sheet

Balance Sheet as reported

Comments

1. **Consistent increase of PPE because of organic and inorganic site openings** (leasehold improvements and gym equipment)
2. Net intangibles are mainly driven by goodwill, customer list (members data) and computer software
3. Comprises primarily financial assets
4. Increase in position was because of the acquisition of Lifestyle gyms, the **implied increase in accrued income and prepayments of leases**
5. Drop in cash balance because of **high investment in PPE** in 2015 and costs related to the IPO
6. **Acquisition of Lifestyle** fitness was partly financed through cash and has led to a decreasing position
7. **Strong operational cash generation** in 2018
8. Consistent increase in rentals, accruals or contract liabilities has led to increasing trade & other payables position
9. **In 2015 a lot of debt was repaid** with raised equity through IPO (Net Debt(1) from £91.2m to £ 31.9m)
10. **Lifestyle acquisition was partly financed by taking on add. debt (Net Debt (1) up to £85.1m)**
11. Shares issued on equity market through IPO
12. Lifestyle acquisition was partly financed through additional issued equity on capital market

Overview

FYE 31/12 in £k	2014A	2015A	2016A	2017A	2018A
(1) Net Property, plant and equipment	67,510	85,237	99,037	133,356	164,505
(2) Net Intangibles	50,870	49,137	48,717	62,536	76,080
Deferred Intangibles	n.m.	n.m.	n.m.	n.m.	n.m.
(3) Other non-current Assets	-	177	403	831	454
Deferred Financing Fees					n.m.
Non-current assets	**118,380**	**134,551**	**148,157**	**196,723**	**241,039**
Inventories	75	122	159	197	379
Trade receivables	4,282	5,654	5,814	(4) 9,037	11,912
Cash and cash equivalents	5,576	(5) 2,860	4,822	(6) 457	(7) 3,027
Current Assets	**9,933**	**8,636**	**10,795**	**9,691**	**15,318**
Total Assets	**128,313**	**143,187**	**158,952**	**206,414**	**256,357**
(8) Trade and other payables	20,797	25,546	34,123	43,662	48,983
Other financial liabilities	246	-	134	822	4,295
Revolving credit facility	3,613	-	-	-	3,000
Provisions	-	-	-	917	679
Total current liabilities	**24,656**	**25,546**	**34,257**	**45,401**	**56,957**
Facility A	34,813	(9) 10,000	10,000	(10) 10,000	10,000
Facility B	9,800	-	-	28,000	36,000
Facility C	27,340	-	-	-	-
Capex facility	-	-	-	-	-
Mezzanine	-	-	-	-	-
Loan agreement fees	(1,700)	(1,034)	(822)	(887)	(835)
Other financial liabilities	1,037	-	-	184	-
Provisions and other liabilities	782	232	1,227	2,832	4,393
Total non-current liabilities	**72,072**	**9,198**	**10,405**	**40,129**	**49,558**
Total Liabilities	**96,728**	**34,744**	**44,662**	**85,530**	**106,515**
Own shares held	n/a	(11) 48	48	48	(12) 48
Share Premium	48,974	136,280	136,280	136,280	159,474
Common Stock	9	12	12	12	14
Retained Earnings	(17,398)	(27,901)	(22,054)	(15,460)	(9,687)
Reserves	-	4	4	4	(7)
Total Equity	**31,585**	**108,443**	**114,290**	**120,884**	**149,842**
Net Debt	**91,152**	**31,884**	**39,840**	**85,073**	**103,488**
Working Capital	**(16,440)**	**(19,770)**	**(28,150)**	**(34,428)**	**(36,692)**

Source: Company information; Notes: (1) Net Debt (Total Liabilities – Cash & Cash equiv.) was calculated via Book values as proxy and compared to reported figures which are calculated as Sum of Facility A to C - Cash and & Cash equiv.

Cash Flows Benefit From Strong Operational Development

Cash Flow Statement as reported

Comments

1. **Increasing demand in working capital primarily driven by increasing trade payables position. Negative working capital** of The Gym Group is because of high accounts payable position, which is driven by **increased number of gyms and thus higher leasing costs**
2. **Significant increase in position due to accounts payable as a result of Lifestyle acquisition as well as an increase in inventory because of potential increase in prices of gym equipment implied by volatility from Brexit,** inventory got piled up to safe discount for future gym openings and access to products
3. **Maintenance CAPEX consists of the replacement of gym equipment and premises refurbishment.** With growth in number of mature gyms, maintenance expenditures increase in line
4. **Cash flow from operations are solid** and show an impressive development over the past 5 years
5. **Expansion CAPEX comprises the fit-out of organic sites, as well as acquisition and conversion costs of acquired gyms.** In 2017 the position increased because of the acquisition costs of Lifestyle sites. In 2018 the high position is rooted in the conversion expenses of those sites as well as acquisition of easyGym sites

Overview[1]

FYE 31/12 in £k	2014A	2015A	2016A	2017A	2018A
Net income	**(3,811)**	**(2,901)**	**6,248**	**8,081**	**8,924**
Depreciation & Amortization	9,700	13,215	14,135	15,583	21,761
(1) Change in Working Capital	3,368	4,250	5,134	2,986	(2) 5,405
(3) Maintenance CAPEX	(1,581)	(2,748)	(2,933)	(6,267)	(8,318)
(4) **Cash flow from operations**	**7,676**	**11,816**	**22,584**	**20,383**	**27,772**
(5) Expansion CAPEX	(20,335)	(28,230)	(20,922)	(52,453)	(57,551)
Cash flow from investing	**(20,335)**	**(28,230)**	**(20,922)**	**(52,453)**	**(57,551)**
Cash Flow before Financing (FCF)	**(12,659)**	**(16,414)**	**1,662**	**(32,070)**	**(29,779)**
Capex Facility drawdown/(repayment)	11,580	17,500	-	28,000	12,500
Revolver cash drawdown (repayment)					
Cash flow available for debt service	**(1,079)**	**1,086**	**1,662**	**(4,070)**	**(17,279)**
Total Cash interest	-	-	-	-	-
Interest Income	-	16	19	12	22
Cash flow available for debt repayment	**(1,079)**	**1,102**	**1,681**	**(4,058)**	**(17,257)**
Debt Repayments	(2,617)	(89,842)	-	-	(1,713)
Adjustments (mostl. share proceeds)	5,181	86,024	281	(307)	21,540
Cash Flow	**1,485**	**(2,716)**	**1,962**	**(4,365)**	**2,570**
Opening Cash Balance	4,091	5,576	2,860	4,822	457
Cash Increase/(Decrease)	1,485	(2,716)	1,962	(4,365)	2,570
Closing Cash Balance	5,576	2,860	4,822	457	3,027

Source: Company information

Note: (1) Since LT employee incentive costs and loss on disposal of PP&E are non-cash expenses, they are not considered in the net income for cash flow purposes (see income statement)

Working Capital is Characterized by Favorable Payment Terms due to Growth

Working Capital development

Comments

1. **Trade and other receivables** as well as **inventory increase linearly with the** organic and inorganic **expansion** of The Gym Group. **Trade and other receivables** consists majorly of **membership fees** that are incrementally **deferred by over 30 days**. **Inventory** constitutes of sold products in the gym such as (shakes, power bars etc.). The number of members varies throughout the year and so does working capital, e.g. is the overall peak usually by the end of January
2. **Trade and other payables** represent accruals and other deferred liabilities such as deferred rent and favorable equipment terms. **Deferred rent** incorporates partially a concession by the landlord of 3-12 month free rent if a lease term of 10-15 years is signed. **Deferred inventory payments** incorporate partially favorable payment terms from inventory suppliers (e.g. Matrix), that ask for a 10% upfront payment and let large customers pay the remaining 90% six month later
3. **Change in other non-operating working capital** is related to other items, which are not comprised to the change of the items of accounts receivable, inventory and trade & other payables in the balance sheet but nevertheless considered in the reported cash flow statement
4. The cash conversion cycle is not applied, as the associated line items do not yield plausible figures. Revenue for accounts payables and SG&A for inventory and accounts payable are the related line items. Due to **economies of scale** and greater bargaining power towards suppliers, each **new opening of a gym provides an incremental growth** of working capital but majorly financed through accounts payable, which **reinforces the scalability** of the entire business model. The **effect in the accounts payable are majorly based on the concession in the lease contracts and deferred inventory payments**.(2) Nevertheless this evolvement is **biased towards growth**, it leads to a shift in the financing of working capital, as the effect from a portfolio perspective **diminishes over time**

Overview

FYE 31/12 in £k		2014A	2015A	2016A	2017A	2018A	4y-CAGR
Operating Working Capital							
Trade & other receivables	1	4,282	5,654	5,814	9,037	11,912	
Inventory		75	122	159	197	379	
Trade & other payables	2	(20,797)	(25,546)	(34,123)	(43,662)	(48,983)	
Total Working Capital		**(16,440)**	**(19,770)**	**(28,150)**	**(34,428)**	**(36,692)**	*22%*
+/- Δ in Working Capital		**n.m.**	**(3,330)**	**(8,380)**	**(6,278)**	**(2,264)**	
+/- Δ in other Working Capital reported	3		*(920)*	*3,246*	*3,292*	*(3,141)*	
Line Item Break Down	4						
A/R as of revenue		9.50%	9.43%	7.91%	9.89%	9.62%	*0.3%*
Inventory as of SG&A		0.27%	0.31%	0.32%	0.32%	0.44%	*13%*
A/P as of SG&A		73.82%	64.45%	68.26%	69.93%	56.96%	*-6%*

Source: Company information;
Notes: (1) Assumption based on the membership fee collection, inventory in shelf estimation and DPO driver due to past growth
(2) If a 15Y lease contract is signed the first year of rent is for free, as granted discount

Impressive Operational Cash Flow Generation with Potential for Future Leverage

Reformulation of the Income Statement Adjusted for all non-recurring Items

the gym find your fit

Comments

1. Cost of sales as % of revenues have been lowered because **payment process efficiency increased through IT infrastructure** development
2. Lease rentals are in line with revenue and number of sites development
3. Since IPO auditors remuneration costs are recurring and charged as 0.2% of revenue
4. Assumed to be **16% of SG&A**(1)
5. Assumed to be **32% of SG&A**(1)
6. Assumed to be **52% of SG&A**(1)
7. Based on the UK corporate tax rate (main)
8. **Stable Cash Flow development with solid basis for future leverage**

Notes to the reformulation

- The table shows the reformulation and reconciliation of the income statement adjusted for all non-recurring items
- Balance Sheet and Cash Flow statement have been reformulated and reconciled accordingly
- The reformulation has been conducted considering **only operating and recurring items**
- **The target of the reformulation** was to see **how much cash The Gym Group generates with its operations**

Overview

FYE 31/12 in £k		2014A	2015A	2016A	2017A	2018A	Average
Revenue		**45,064**	**59,979**	**73,539**	**91,377**	**123,884**	
Cost of Sales	1	(1,040)	(1,073)	(830)	(982)	(1,007)	
(as % of revenue)		*2.3%*	*1.8%*	*1.1%*	*1.1%*	*0.8%*	*1.4%*
Gross Profit		**44,024**	**58,906**	**72,709**	**90,395**	**122,877**	
Employee Expenses		(5,480)	(8,419)	(9,944)	(13,153)	(16,784)	
(as % of revenue)		*12.2%*	*14.0%*	*13.5%*	*14.4%*	*13.5%*	*13.5%*
Lease rentals	2	(7,781)	(11,186)	(13,488)	(17,251)	(22,963)	
(as % of revenue)		*17.3%*	*18.6%*	*18.3%*	*18.9%*	*18.5%*	*18.3%*
Cost of inventory		-	(197)	(68)	(43)	(46)	
Auditors remuneration	3	-	(93)	(120)	(187)	(224)	
(as % of revenue)		*0.0%*	*0.2%*	*0.2%*	*0.2%*	*0.2%*	
Marketing costs	4	(2,328)	(3,082)	(4,117)	(4,966)	(7,178)	
Other fixed property costs	5	(4,771)	(6,317)	(8,437)	(10,177)	(14,711)	
Other operating costs	6	(7,811)	(10,342)	(13,814)	(16,661)	(24,085)	
SG&A		(28,171)	(39,636)	(49,988)	(62,437)	(85,992)	
(as % of revenue)		*62.5%*	*66.1%*	*68.0%*	*68.3%*	*69.4%*	*53.9%*
EBITDA		**15,853**	**19,270**	**22,721**	**27,958**	**36,885**	
operating EBITDA margin		*35.2%*	*32.1%*	*30.9%*	*30.6%*	*29.8%*	
Depreciation		(7,600)	(10,907)	(12,693)	(14,408)	(19,710)	
(as % of Net PPE)		*11.3%*	*12.8%*	*12.8%*	*10.8%*	*12.0%*	*11.9%*
Amortization		(2,100)	(2,308)	(1,442)	(1,175)	(2,051)	
(as % of Net Intangibles)		4.1%	*4.7%*	*3.0%*	*1.9%*	*2.7%*	*3.3%*
EBIT		**6,153**	**6,055**	**8,586**	**12,375**	**15,124**	
Tax expenses	7	(1,334)	(1,673)	(2,006)	(2,608)	(3,306)	
Tax rate		*20.0%*	*20.0%*	*20.0%*	*19.3%*	*19.3%*	
Net Income		**4,819**	**4,382**	**6,580**	**9,767**	**11,818**	
Depreciation & Amortization		9,700	13,215	14,135	15,583	21,761	
- Δ in Working Capital		n.m.	4,250	5,134	2,986	5,405	
- Maintenance CAPEX		(1,600)	(2,748)	(2,933)	(6,267)	(8,318)	
Cash Flow from Operations	8	**n.m.**	**19,099**	**22,916**	**22,069**	**30,666**	

Source: Company information, UK Government tax rates;
Notes: (1) Based on data as of IPO Prospectus

Past Operations led to Financial Strengths and a low Leverage Ratio

Key Summary of historical development of financial statments

Income Statement

- **Significant top line growth** as a result of strong increase in sites, memberships and average revenue per member per month
- Although **strategic decisions such as going public in 2015, buying Lifestyle fitness and easyGym sites** in 2017 and 2018 respectively had negative effects on profit margins, those actions **were strategically successful** and have led to robust revenue growth
- Through an increase in memberships per site over the last 5 years, **economies of scale supported a robust EBITDA development**
- Biggest cost positions on the income statement are employee expenses, lease contracts which have an average length of 15 years, as well as other operating costs like marketing and fixed property expenses. Those expenses were in line with revenue development over the past years

Balance Sheet

- Main effects on the balance sheet have been the IPO as well as the acquisition of Lifestyle fitness and easyGym sites
- Although IPO costs affected the cash balance negatively, **leverage ratio has been decreased** since then **because capital raising was mainly through issuing equity on the capital market instead of debt** since then
- **Asset base has strongly improved** throughout the past 5 years **as gym equipment was increased and leasehold improvements were realized** through organic and inorganic site openings. Therefore the company built a substantial asset base which is promising for future leverage
- Net intangibles like members data reflected in customer list and brand have mainly increased through the two acquisitions

Cash Flow Statement

- The company displays a **sustainable operational cash profile which is characterized by impressive growth** throughout the past 5 years
- The increased Property Plant & Equipment has resulted in a linear increase of depreciation and thus had a positive effect on operational cash flows
- **Maintenance capital expenditures** have been in line with revenue development and **have had a predictable ratio**
- Expansion CAPEX were mainly driven by the extension of new sites in the portfolio. The two acquisitions in 2017 and 2018 had the biggest impacts on that position
- **The strategical and operational improvement throughout the last five years of The Gym Group, is reflected in its robust, recurring and therefore predictable Cash Flows**

Cash conversion and Net Working Capital

- The **cash conversion cycle is biased towards growth** due to shifts in days payable outstanding in terms of concession for long-term lease rentals (1st year lease-free). Accelerated growth leads to an on-and-on decrease in net working capital. Nevertheless this evolvement is **biased towards growth**, it leads to a **shift in the financing of working capital**, as the effect from a portfolio perspective **diminishes over time**
- **Economies of scale lead** therefore to **accelerated growth without investments in working capital**
- **Trade and other receivables** as well as i**nventory increase linear with the** organic and inorganic **expansion** of The Gym Group. **Trade and other receivables** consist majorly of **membership fees** that are incrementally **deferred by over 30 days**
- **Change in other non-operating working capital** is related to other items, which are not comprised in WC balance sheet items but nevertheless reported in the Cash Flow Statement

4 I Valuation

The Discounted Cash Flow Analysis Reflects the High Value of The Company

DCF

Comments

- Considering the expected revenue and cost development, the company was inter alia valued via the DCF method
- In order to receive an appropriate entry multiple**, two methods within the DCF valuation have been applied**
- The WACC is calculated via the dividend growth method with 27.3% as proxy for the return on equity and the interest on debt is assumed to be 1.4% based on a dedicated default spread and the risk-free rate. This way an overall WACC of 22.7% was calculated, due to the small amount of debt outstanding
- The **Terminal multiple method**, using 6x EBITDA in year 7 is based on a relative valuation, comparing peers but adjusting for infinite market growth. **The method implies a final multiple of 11.5x**.
- The second approach applied is based on the **Gordon growth method** with 1.8% infinite growth (long term global market growth) **leading to a final multiple of 9.9x**

DCF Model

FYE 31/12	2018A	2019E	2020E	2021E	2022E	2023E	2024E	2025E	TV Multiple	TV Perp Growth
Revenue	**123,884**	**163,007.44**	**190,209.85**	**211,590.72**	**233,570.38**	**256,095.67**	**278,229.29**	**299,256.18**		
Revenue growth	*36%*	*32%*	*17%*	*11%*	*10%*	*10%*	*9%*	*8%*		
Membership Income	121,515	159,475	185,137	204,889	225,005	245,424	265,244	283,793		
Personal Trainer Rental Income	875	1,966	3,246	4,668	6,321	8,211	10,312	12,588		
Other Income	1,494	1,566	1,828	2,033	2,244	2,461	2,673	2,875		
Cost of Sales	(1,007)	(2,319)	(2,706)	(3,010)	(3,323)	(3,643)	(3,958)	(4,257)		
Gross Profit	***122,877***	***160,689***	***187,504***	***208,581***	***230,248***	***252,452***	***274,271***	***294,999***		
SG&A	**(88,335)**	**(108,777)**	**(122,124)**	**(134,467)**	**(147,044)**	**(158,710)**	**(170,167)**	**(181,369)**		
Employee Expenses	(16,784)	(21,579)	(23,684)	(25,864)	(27,855)	(29,915)	(31,906)	(33,965)		
Lease rentals	(22,963)	(28,533)	(31,364)	(34,405)	(37,617)	(40,145)	(42,644)	(45,111)		
Cost of inventory	(46)	(57)	(62)	(66)	(70)	(74)	(77)	(80)		
Auditors remuneration	(224)	(295)	(344)	(383)	(422)	(463)	(503)	(541)		
Marketing costs	(7,178)	(8,845)	(10,322)	(11,482)	(12,674)	(13,897)	(15,098)	(16,239)		
other fixed property costs	(14,711)	(17,849)	(19,620)	(21,522)	(23,531)	(25,113)	(26,676)	(28,219)		
Other operating costs	(24,085)	(30,619)	(35,729)	(39,745)	(43,874)	(48,105)	(52,263)	(56,212)		
Other operating Items	(2,343)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)		
Acquisition costs	(644)	-	-	-	-	-	-	-		
Integration costs	(460)	-	-	-	-	-	-	-		
Restructuring costs	(1,239)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)		
EBITDA	***34,542***	***51,911***	***65,380***	***74,114***	***83,203***	***93,742***	***104,104***	***113,630***		
Depreciation	(19,710)	(24,248)	(27,708)	(31,588)	(35,611)	(39,429)	(43,492)	(47,534)		
Amortization	(2,051)	(5,149)	(6,696)	(7,647)	(9,087)	(10,116)	(11,806)	(13,584)		
EBIT	***12,781***	***25,160***	***35,154***	***39,966***	***44,956***	***51,593***	***57,799***	***63,182***		
Tax rate	(2,460)	(4,843)	(6,767)	(7,693)	(8,654)	(9,932)	(11,126)	(12,163)		
Tax rate	*19.3%*	*19.3%*	*19.3%*	*19.3%*	*19.3%*	*19.3%*	*19.3%*	*19.3%*		
NOPLAT	***10,321***	***20,317***	***28,387***	***32,272***	***36,302***	***41,662***	***46,673***	***51,020***		
+ Depreciation and Amortization	21761	29,397	34,404	39,235	44,699	49,545	55,298	61,118		
- Δ in Working Capital	2,264	(42,955)	(2,541)	(1,382)	4,627	697	89	22		
+ Maintance CAPEX	8318	(10,595)	(12,364)	(13,753)	(15,182)	(16,646)	(18,085)	(19,452)		
FCF	***38,136***	***82,073***	***52,968***	***59,136***	***61,191***	***73,863***	***83,797***	***92,664***	***681,782***	***452,350***
Discount Rate	***1.00***	***1.23***	***1.50***	***1.85***	***2.26***	***2.78***	***3.40***	***4.18***	***4.18***	***4.18***
PV FCF	***38,136***	***66,914***	***35,209***	***32,049***	***27,037***	***26,609***	***24,612***	***22,189***	***163,259***	***108,319***

Sensitivities

Terminal Multiple	WACC 20.7%	21.7%	22.7%	23.7%	24.7%
4.0x	10.7x	10.3x	9.9x	9.6x	9.3x
5.0x	11.6x	11.2x	10.7x	10.3x	10.0x
6.0x	12.5x	12.0x	**11.5x**	11.1x	10.7x
7.0x	13.4x	12.8x	12.3x	11.8x	11.4x
8.0x	14.2x	13.7x	13.1x	12.6x	12.1x

Terminal Growth Rate	WACC 20.7%	21.7%	22.7%	23.7%	24.7%
1.0%	10.5x	10.2x	9.8x	9.4x	9.1x
1.4%	10.6x	10.2x	9.9x	9.5x	9.2x
1.8%	10.7x	10.3x	**9.9x**	9.6x	9.2x
2.2%	10.8x	10.4x	10.0x	9.6x	9.3x
2.6%	10.9x	10.5x	10.1x	9.7x	9.4x

Comparable Comps and Precedent Transactions as Core Valuation Methods

Relative valuation

Considerations

- Comparing trading competitors, a LTM EBITDA-multiple **median of 14.3x** and **average of 16.3x** were derived
- The size of the multiple mainly depends on the EBITDA-margin and the recent sales growth
- However, there are further influencing factors that need to be taken into account. Mainly, these are the **maturity and characteristics of the market** the companies are operating in, **crisis stability**, and the **business model**
- A further evaluation can be found in the appendix

Trading Comps

Company	Relevance	Country	EV/EBITDA LTM	EV/EBITDA NTM	EV/Revenue LTM	EV/Revenue NTM	EBITDA Margin	5-y. Sales CAGR	5-year EBITDA CAGR
The Gym Group	TGG	United Kingdom	16.26x	11.68x	4.66x	4.01x	28.70%	32.20%	34.10%
Holmes Place International Limited	Relatively High	Israel	11.19x	n.a.	2.62x	n.a.	23.3%	13.8%	26.8%
Planet Fitness Inc	High	United States	23.97x	20.43x	10.22x	8.45x	42.6%	20.3%	27.7%
Basic Fit NV	Intermediate	Netherlands	21.56x	9.39x	6.25x	4.99x	29.0%	25.6%	29.2%
Grupo Sports World	Intermediate	Mexico	10.37x	5.44x	2.32x	2.18x	23.2%	14.5%	18.9%
Actic Group AB (pub)	Intermediate	Sweden	14.3x	6.x	1.7x	1.7x	37.2%	7.8%	6.0%
Fitness Clubs - Median			**14.3x**	**7.7x**	**2.6x**	**3.6x**	**29.0%**	**14.5%**	**0.27x**
Fitness Clubs - Average			16.3x	10.3x	4.6x	4.3x	31.1%	16.4%	0.22x

Considerations

- Considering comparable transactions in the low-cost segment, a **median multiple of 9.6x** and an **average multiple of 9.7x** were derived
- The fact that the transaction multiples are lower than the trading multiples is rooted in two reasons: i) buyers are not able and willing to pay multiples as high as the market is ii) the trading multiples are more recent and the market is currently in a **high-valuation phase** (e.g. Planet Fitness EV/EBITDA March 2017: 11.74x vs. 23.97x today)
- If one **avoids taking the current market sentiment into account**, it is advisable to base the LBO valuation on a multiple that is close to the comparable transaction median
- Due to the **high similarities** between The Gym Group and Pure Gym, the most recent Pure Gym transaction is of **very high relevance** for the valuation. Since the companies are much alike and the transaction took place in 2017 (not in high-valuation period, but fairly recent) the **11.9x are decisive**
- Since the median and and average are below (9.6x and 9.7x), the Pure Gym multiple also represents the **capping**

Comparable Transactions

Target Company	Subsector	Buyer	Type	Country	Date	EV (USDm)	EV / EBITDA	EBITDA Margin*	Exit TVPS
Pure Gym	Low-cost	Leonard Green	Sponsor	UK	2017	675	11.9x	25.1%	
FitnessWorld	Low-cost	FSN Capital	Sponsor	Denmark	2015	250	6.9x	17.9%	
Snap Fitness	Low-cost	TZP Group	Sponsor	USA	2014	200	10.x	n/a	
Pure Gym	Low-cost	CCMP	Sponsor	UK	2013	234	8.8x	37.0%	3.3x
Planet Fitness	Low-cost	TSG Consumer Partners	Sponsor	USA	2012	474	9.2x	32.1%	6.5x
Basic Fit	Low-cost	3i	Sponsor	Netherlands	2012	363	11.9x	30.4%	3.0x
Snap Fitness	Low-cost	Summit Partners	Sponsor	USA	2008	45	10.5x	33.3%	2.1x
Actic	Low-cost	FSN Capital	Sponsor	Sweden	2007	90	8.0x	29.0%	3.2x
Low-cost Median						**242**	**9.6x**	**30.4%**	**3.2x**
HVPL Average						291	9.7x	29.3%	3.62x

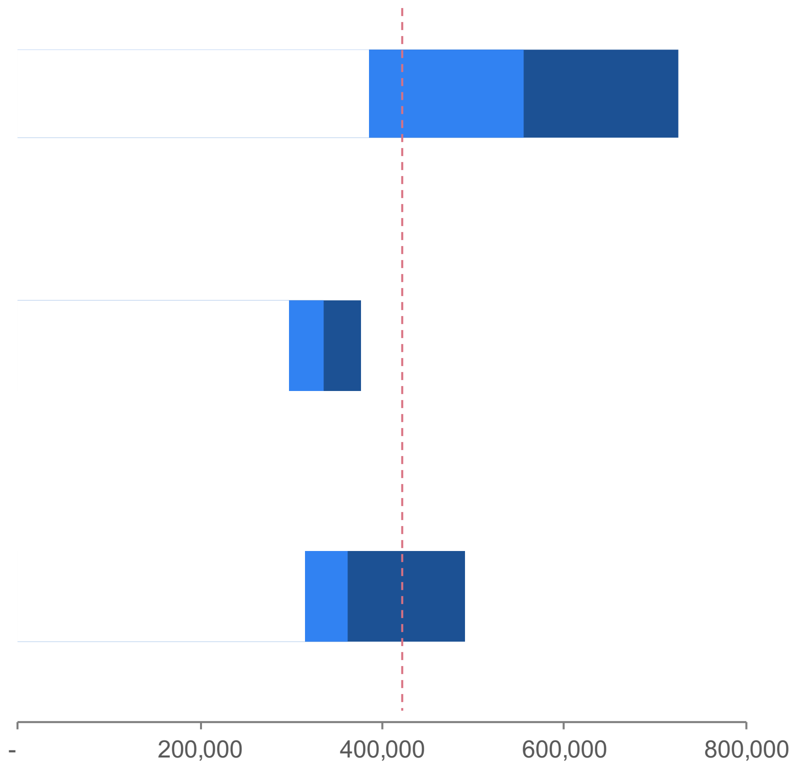
Based on a comprehensive analysis,
a market sentiment-independent Entry Multiple of **12.0x EBITDA** is derived

The Applied Valuation Methods Converge at an Entry Multiple of 12.0x 2018-EBITDA

Valuation Summary

Comments	EV / EBITDA	Methodology
▪ **Due to high-valuation market sentiment, peers are currently trading at an all time high** ▪ In the PE industry **(almost) no fund is able and willing to pay these high multiples for a gym provider**, so this method is not given high relevance ▪ The lower bound is close to the final multiple	**11.2x – 21.0x**	**Public Comparable Companies**
▪ **Due to the current overvaluation of the market, only transactions prior to 2018 were considered** ▪ The most relevant transaction is the recent Pure Gym purchase by LG, due to high comparability (11.9x) ▪ **It is noticeable that the multiples showed a consistent upward trend throughout recent years**	**8.6x – 10.9x**	**Precedent Transactions**
▪ Applying the **terminal multiple method** a range of **9.3x-**14.2x was derived ▪ With **the terminal growth method** a multiple range of 9.1x-**10.9x** was calculated ▪ These multiples are fairly high since a significant FCF growth is assumed, based on the rapidly growing market	**9.1x – 14.2x**	**DCF**
▪ The applied valuation methods and a comprehensive analysis of influencing factors led to **a final multiple of 12.0x** ▪ **This multiple is mainly based on the precedent comp transactions and comparable comps accounting for the current bullish market sentiment**	**12.0x**	**Entry Multiple**

Enterprise Value



Enterprise Value (12x EBITDA multiple): £414,504,000

5 I Investment Thesis & Value Creation

The Gym Group has tremendous potential to create value through superior growth

Investment Thesis

Entry[1]

Company:

- The Gym Group is a UK market leader within the low-cost gym segment regarding price and availability
- Scalable business strengthened through a technology-led operating model
- Impressive financial growth ensured through inorganic and organic site expansion and improvements in operating efficiency
- Strong HR development with experienced management team, which will be triggered to do the transaction through generous incentivation (roll-over of shares and sweet equity)

Market:

- The UK low-cost fitness market is expected to grow significantly with a CAGR of 9% until 2025 (in terms of members)
- It is triggered by major growth trends like health consciousness and the shift from premium and mid-market segments to low-cost, mainly based on consumer preferences and price sensitivity
- The strong growing market is characterized by fragmentation and gives the opportunity to gain substantial share through consolidation

Value creation

Accelerate growth strategy:

- Market gives opportunity to push top-line growth by extending yearly targeted site openings and exploit future market development
- Further increasing efficiency and concurrently customer connection through investment and improvement in technology-led operating model
- Incentivized management and funds know-how will be key to the strategy

Buy and build to gain substantial market share:

- Extending targeted site openings will be supported through inorganic openings, implied by the acquisition of two smaller players with synergies mainly reached through increased memberships and higher market reach
- Fund can support in transaction processes through its network and know-how and can deploy all capital needed
- Consolidation will increase market share to 35% until 2025
- Due to capital strength of the fund and its network within in the market, the fund will be able to foster growth faster as the current management would be capable of, as capital constraints and access to further sites are the major growth prohibition factors of the company
- The focus on the domestic market is core of the strategy applied. As the market has enough headroom, the real estate network is majorly domestic and the past learning curve on operational practice and customer behavior can be levered best this way

Exit

Exit in 2024:

- Strategic acquirers as well as financial buyers are expected to show great interest in The Gym Group
- International gym providers are majorly targeted as potential strategic buyers since The Gym Group would give them the opportunity to enter the UK market and immediately gain substantial market share
- As the low-cost fitness market is expected to grow further, many financial investors are becoming increasingly active in order to participate from that trend

Return:

- Additional to market growth the funds buy and build as well as pushing top-line growth strategy will lead to solid value creation and will be reflected in the returns
- Main drivers for The Gym Groups return potential are EBITDA and revenue growth coupled with a strong deleveraging effect
- This yields to a money multiple of 5.3x and an IRR of 32% for the 6-year investment horizon (for institutional investors)
- Both, investor and management proceeds are promising

Source: Company information;
Note: (1) Entry is assumed to be done on 01/01/2019

Premium Locations, Fast Conversion and Integration are Key Drivers

Accelerate growth strategy via organic growth

Sourcing

- A **full pipeline of premium locations** is **crucial to foster further growth** of the company. An **increase in access to such locations** will be key to the future strategy to achieve the ambitious goal of 14-17 organic openings and up to 32 inorganic openings per year
- To **increase the access for commercial real estate** in the UK it is **envisaged to build up a strategic partnership with CBRE** the biggest UK commercial real estate broker. The partnership implies a master agreement for all further locations that will be sourced through CBRE. The Gym Group will receive a reduction in fees if more than 2 sites a year come through CBRE as a broker. Additionally, The Gym Group will present incentives for company fitness contracts to CBRE employees[(1)]
- To **enhance the current network within the real estate industry** it is envisaged to **be part of the key real estate conventions to actively build relationships** within the industry, which will lead to a greater access of locations

Creation and Transition

- To **minimize the time to** convert acquired gyms and to **create organic gyms** of a commercial area it is **envisaged** to enhance **strategic partnerships with construction companies**
- To **bind more** highly qualified **construction companies to the gym group**, **master agreement for the gyms within certain regions** of the UK are signed to ensure the same level of quality. Due to **economies of scale** and such agreements the **small concessions for prices will be realized** that can be quantified as 2% p.a., higher concession will be unrealistic as the excess demand for construction resources in the UK will not vanish
- To **maintain the current standards of building materials within the gyms** and their availability the future strategy implies a **good relationship management with the relevant building material producers to ensure that all products** that are used for the gyms fit-out **are available** and to **undertake an ahead looking action if access cannot be guaranteed** in the future

Operation and Portfolio integration

- A **streamlined portfolio integration process** of new gyms and a **fast connection to the operating IT system** is key **to guarantee smooth operation** in the beginning as well as **to bring organic opened gyms as soon as possible to maturity**
- Besides, the technical integration process a **well ahead planned resource management has to be in place**. The **further investment strategy will imply** enhancement of earning resource planning **monitoring** as well as human resource planning
- Well **educated employees are key to guarantee successful operations and customer satisfaction, therefore employee educational programs** will **drive continuous knowledge transfer** to foster customer care. Also, the currently running program of building leaders of tomorrow inhouse will stay in place to **incentivize young professionals to obtain a future management role** within The Gym Group
- It is envisaged to set up a new team of 3 FTEs to **build a great expertise within in the commercial real estate sector** to ensure a full lease area pipeline, well-managed relationships and successful creation and transition of the new leased sites

Strategic allies and well managed relationships will ensure further organic growth. Operational efficiency is driven by continuous monitoring, comprehensive resource planning and great knowledge transfer to employees to ensure quality standards and customer satisfaction

Source: Company information

Note: (1) Brokerage fees are 4 to 8% of the annual net lease, depending on the amount of the rent paid - the higher the rent the smaller the percentage for the fee

Data Sourcing, Interpretation and Business Model Adaption Offer add. Potential

Accelerate growth strategy via technology

Envisaged action / data leverage	Use case description	Business application	Estimation[1)]
Gym density throughout the day	Providing customer the information how many people are currently in the gym	Integration in TGG app	Improvement of customer satisfaction, smoothing out of gym visitors over near facilities
Personalized nutrition plan	Provide customer with an additional service of nutritional consultation e.g. per app for an additional fee of around £2 p.m. (estimate: 10% will use this)	Integration in TGG app	Improvement of customer satisfaction, additional revenue potential through upselling
Information sharing with friends	See friends class participations and gym activity to join them and motivate each other (e.g. send invitations to group of training partners, competitions)	Integration in TGG app	Customer retention increase through social identification factors and emotional connection
Personalized marketing	Tailor marketing to deliberately provided user information such as preferred classes, goals, training preferences, social circles. Connect this with “friends”	Source data from all customer interaction points, send marketing via preferred channel (SMS, WhatsApp,TGG app, phone, personally..)	Customer retention and satisfaction improvement
On-demand streaming of fitness classes	Allows customers to access the live classes from everywhere and thus benefit from membership even on vacation and business trips	Integration in TGG app	Customer satisfaction and retention improvement
Connection of app with fitness trackers	Enable members to connect their TGG app with their wearables such as their FitBit or Apple watch to count calories, track activities and send reminders	Connectivity of TGG app and eventually also the fitness equipment	Customer satisfaction and retention improvement

Source: Company information
1) not reflected in the model but additional upside potential 2) of 2018 annual revenue
Note: All envisaged technology enabled revenue growth factors are not separately reflected in the model but reflected in the number of members per mature gym as well as in the time to maturity

A Dual Track Approach to Gain Market Share and Use Current Market Momentum

Buy and build strategy

	Segment Competition	Strategy	Acquisition criteria	Value creation
Private	**Low-cost gym segment / direct competition**	To **increase a higher market share** and to benefit from the **dynamics of the fragmented low-cost gym market** in the UK it is envisaged to **buy two major players** in the market. To **guarantee a smooth integration** of the gyms into the portfolio of The Gym Group as well as a **good fit in terms of customer base**, gyms from the mid- and high-cost segment will be excluded. Furthermore the **focus will be merely on relatively large players** with 10+ gym to amortize prospective acquisition costs	**Number of Clubs** **EBITDA Margin** / SG&A Margin **Location** **Portfolio fit**	▪ **Same customer base** will lead to **sustainable top line growth** supported by **comprehensive brand** of the target to smoothen brand transition ▪ **Increase density of UK footprint** ▪ Envisaged that **acquired customer base will support the further differentiation** approach from Pure Gym
Governmental	**Government-owned / indirect competition**	**Government owned gyms are lacking reinvestments and face drops in memberships** but are **usually in good locations** and government owned buildings. Therefore, it is **envisaged to take over 50 government owned gyms**, to get **access to great locations** and a trustworthy multi-site landlord	**Location** of the real estate **Length of potential lease contract**	▪ **Acceleration of achieving targeted growth goals** to gain further access to commercial real estate areas beyond the private market ▪ **Potential to build a great relationship** with **one of the biggest landlords** in the UK real estate market

Not considered in forecasts but mentioned as further value creation beyond management case

Applying the Following Filters is Key to Identify The Right Acquisition Targets

M&A Target Criteria

Criterion	Optimal Condition	Reasoning	Relevance
Number of clubs	Should be between 10 and 50	▪ Providers that are **too small are not worth the effort** of doing an M&A deal (if organic growth would be more time and resource efficient) ▪ **Large** competitors would be i) **very expensive** to acquire ii) not allowed by the **antitrust authorities** (failed merger with Pure Gym)	
Portfolio fit	Low-cost provider with appropriate quality level	▪ The optimal take-over target is a **low-cost provider** with similar fit-out operating in the same customer segment ▪ Buying a target with insufficient **quality standards** might lead to high investments in refurbishments and maintenance ▪ **Franchise companies are not an option** due to severe differences in business model approach	
Financial Health	Similar financial profile as TGG	▪ **Profitability** is an important metric for M&A targets since an acquisition should **not be dilutive** to TGG's margins ▪ Since some potential targets are very small, it is sometimes hard to get information on this. However, if appropriate restructuring costs are considered, TGG should be able to transform most facilities to **achieve current margin levels**	
Location	Should complement the current network	▪ Location-wise, the target's facilities should be **complementary** to the current network of facilities of TGG. Thus, they should not be located in walking distance from each other ▪ On the other hand, they should **not be too isolated** from the current network and each other to allow customers to make use of the multi-facility option	

Analyzed Companies

Target universe

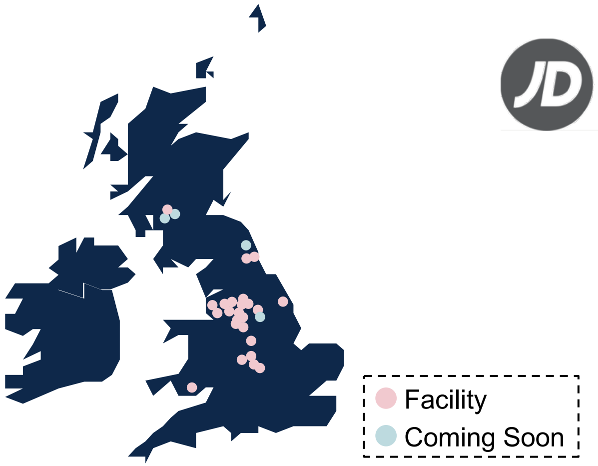
DW Sports Fitness, Gold's Gym, Nuffield Health, totalfitness, David Lloyd Clubs, Anytime Fitness, Bannatyne Health Club & Spa, Ben Dunne Gyms, JD Gyms, Fitness First, places for people, énergie Fitness, Virgin active, snap fitness 24-7 fast · convenient · affordable, Sports Direct Fitness.com, Village Hotel Club, Everlast Fitness Club

= low = high

JD Gyms as Dedicated Portfolio fit to Boost Inorganic Growth

Target 1: JD Gyms

Criterion	Target specifics
Number of clubs	▪ JD Gyms operates **28 facilities** and additionally advertises **4 as "coming soon"**, at time of acquisition there would be **32** facilities ▪ This represents the **optimal size** for a take-over target since it is not big enough for antitrust authorities to bother but large enough to prefer an acquisition over organic growth
Portfolio fit	▪ The target is focused on the low-cost segment, offering appropriate quality at affordable prices ▪ On a no-contract basis, memberships start with **a monthly fee of £15.99,** committing to a contract members can save up to £3 per month ▪ The interior and fit-out have a similar look and atmosphere as the gym group branches and they also use similar marketing approaches
Financial Health	▪ JD gyms showed **significant growth** in recent years in terms of branches and members ▪ Even though detailed financial figures are not disclosed as JD is part of the parent company JD Sports Fashion PLC, the similarity with TGG and Pure Gym in terms of its business model approach, allows us to assume a similar financial profile
Location	▪ 11 of the branches are located in the North West ▪ 9 are located in Yorkshire ▪ and the remaining 12 spread over other areas of the UK, representing a perfect fit with the current site distribution



Business Description

- **Origin:** In 2014, JD Sports Fashion PLC (a sports fashion retailer of branded sports and casual wear) entered the fitness club industry by creating JD Gyms
- **Financials:** Based on a comprehensive valuation a purchase multiple of 8.0x has been derived. The company has estimated annual revenues of c. £24m and accordingly an EBITDA of £7.8m, leading to an EV of £62.4m
- **Expansion:** They are growing at a relatively fast pace from 0 gyms in 2014 to 32 at the end of 2019, spending approx. £1.5m per site opening
- The **high quality fit-out** can be seen by suppliers including True Fitness, Freemotion, Life Fitness (sourced predominantly from the USA) and Technogym
- Approx. 150 FTEs
- High **social activity**, e.g. World Mental Health day, Children in Need Challenges
- Strong **marketing** campaign (#IAMJDGYMS, "fitness just got serious"), leading to approximately 28k Facebook followers and 13k Instagram followers
- Strong **emotional connection** of members through organizing special themed days, events, and inviting celebrities (e.g. Alexandra Burke)
- JD Gyms owners are expected to agree to a deal since i) their core business is sports fashion and the gyms might be perceived as distraction from operational focus

Asset Deal with Subsidiary of an American Conglomerate as Strategic Acquisition

Target 2: Everlast Fitness Clubs

Criterion	Target specifics
Number of clubs	▪ Everlast operates **13 clubs** in the UK ▪ Even though this only slightly exceeds our minimum size requirement, it helps the Gym Group to speed up their expansion and meet growth targets within the investment period
Portfolio fit	▪ Everlast operates in the low-cost segment with monthly membership prices of **£10-25 contract based** and **£15-30 month-to-month** (including premium memberships) ▪ The interior and fit-out have a similar look and atmosphere as the gym group branches ▪ The branches are fit-out with an industrial chic look and bright yellow colors
Financial Health	▪ Everlast has similar characteristics as JD gyms, TGG, and Pure Gym and thus can be assumed to have a similar financial profile as well
Location	▪ 4 branches are located in North West ▪ 3 Branches are located in East Anglia and the others are spread out in the UK ▪ The locations make a good fit with TGG's current portfolio as well as with JD Gym networks

Business Description

- **Origin:** Subsidiary / brand of Sports Direct International plc, a fitness equipment provider, which also operates Sports Direct Fitness (gym chain with 29 UK branches)
- **Financials:** The transaction is assumed to be structured as an **asset deal,** which leads to a lower multiple of 6.0x (since it is only paid for the sites). Everlast has estimated annual revenues of c. £10m and EBITDA of £3.3m, leading to an EV of £19.5m
- **Expansion:** Flag ship store in Southport opened in 2016, now there are 13 clubs
- The **high quality fit-out** can be seen e.g. by the fact that they hired SEV to design and implement an individual tailored fit-out for their gyms
- Approx. 20-50 FTEs
- **Marketing** campaign, enhanced by the brand reputation of "Everlast" as fight and fitness equipment provider
- Currently in the initial **build-up phase**, offering diverse promotions, e.g. free trials, "pay nothing until 2020", no joining fee
- Target owners are expected to agree to a deal due to Everlast's regional focus on the United States (UK is not main region and might be perceived as distraction from core)

Source: Company information, Capital IQ, Apollo.io, www.sev.uk.com

Individual Reflection Dominik

Skills Developed

Throughout the writing process I have acquired both soft- and hard skills. Referring to the first, I enhanced my team work skills. Here, I realized how much more effective it is to communicate in person rather than through digital means. Also, I learned how to deal with smaller set backs within the team. As we did not always agree on the approach of our research, we were sometimes faced with discussions. Over the course of our project we had to learn to find mutually satisfying solutions. Moreover, we realized the importance of time management. At the beginning of the project, we did not value personal- and team deadlines. Only later we understood how much more effective we could have been.

On the hard skill side, I would like to point out two abilities that will be of great help for my future work. Most importantly, I really believe that I got a better understanding and the ability of financial modelling of a leverage buyout. In the future I see myself in the financial sector, whereby this knowledge can be of great advantage. The PowerPoint skills acquired are similarly handy. I really believe I got more confident with a variety of commands. Additionally I am sure that I improved in the ability to built structured slides from scratch on.

Team Approach

Our approach regarding the PE challenge was in the beginning defined by a quite intense search for the right target company. Taking into consideration the pre-defined characteristics, the three of us parallelly screened over 10 companies each. In retrospect this went quite well as we were all convinced having found the right target when we further analysed The Gym Group. After determining who is in charge of which part for the first package it was difficult for all of us to decide what of the read information is necessary to bring on slides and what is irrelevant. In the future I would wish to have more confidence to efficiently decide which relevant information to bring on paper. In regards to communication within the team I realized how valuable in person communication is rather than via phone (or similar). The theoretical approach to assign one expertise field to one responsible person was good but in in practice we realised how time consuming it is to explain its own expertise field to the other team members. We also realised how important it is that everyone is on the same “common denominator” especially for the team members that are working on the model. We had two person in charge for the model which was quite efficient in the retroperspective. The other member was in charge of building slides for all ”not model related” parts. In the end updating that other person on a more common basis would have been better for a more efficient process since the model builds the core of the Investment Committee Paper.

Learnings Applied

The master project required advanced analytical skills and an insight driven working approach. The course financial modelling has been very valuable to set up a validated financial model that layed the foundation of our work. Further, the course ‘Corporate Finance‘ enabled us to design the model compliant to accounting principles as well as understand and read financial statements, which is of very high relevance in a professional career in finance. Further the course Private Equity of Professor Duarte helped me understand how to set up, structure and finance a leveraged buy out transaction. Additionally it helped to built the core structure of the Investment Comittee Paper.

The learning approach of NOVA’s courses with its core of group assignments helped me also throughout the working project. Dealing and communicating difficult situations within the team was key for the successfully delivered Master thesis. Although our team was facing some communicational difficulties, we were able to deliver a very satisfactory thesis.